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Muted quarter; Demand recovery likely from H2!

About the stock: Somany Ceramics is the second largest tiles manufacturer in the domestic tiles market having ~80 MSM capacity along with bath fittings and sanitaryware capacity of 1.3 mn pieces and 0.78 mn pieces, respectively.

- Riding on real estate strong cycle, the company has guided for low double digit tiles volumes ahead

Q4 & FY24 Performance: Somany report muted set of numbers on expected lines. Tiles sales volumes were up 7.3% YoY at 18.9 MSM, with Tiles revenues up 4.8% YoY at ₹ 611 crore. The overall revenue was at ₹ 738 crore, up 8.6% YoY. The margins at 10.8% were up 180 bps YoY driven by lower gas prices. Given the strong margins expansion, PAT at ₹ 30.8 crore was up by 26.7% YoY. For FY24, Tiles volumes were up 4.8% YoY at 67 MSM with Tiles Revenues of ₹ 2225 crore, up 3.6% YoY. Overall Revenues were up 4.6% YoY at ₹ 2884 crore. Margins expanded by 210 bps at 9.8%. PAT at ₹ 96.9 crore was up 25.5% YoY.

Investment Rationale:

- Healthy outlook Growth recovery likely from H2:** The management has indicated that demand should witness recovery post the election led impact. It expects low double digits volume growth in FY25 vs. 5-56% growth for the industry. We have baked in tiles volume and revenue CAGR over FY24-26E of ~10.2%/10.6% to 81 MSM and ₹ 2724 crore, respectively. Overall topline is expected to grow at 10.9% CAGR over FY24-26 to ₹ 3171 crore.
- Operating leverage and benign gas prices to drive Margins improvement and earnings growth:** The gas prices have eased significantly in FY24 (Average gas cost for FY24 was ₹ 45/scm vs. ₹ 59/scm in FY23) and are likely to remain stable and at benign levels. The company has guided for margins expansion of 100-150 bps in FY25. Amid benign Gas prices and operating leverage led benefits, we expect EBITDA margins to reach ~10.7%/11% in FY25/FY26, respectively from 9.8% in FY24. We expect ~32% earnings CAGR over FY24-26.

Rating and Target Price

- With strong real estate completion cycle kicking in coupled with benign gas costs, we expect Somany to remain a one of the beneficiaries of the same.
- We value Somany at **₹ 910, at 22x FY26 P/E and maintain our BUY rating**

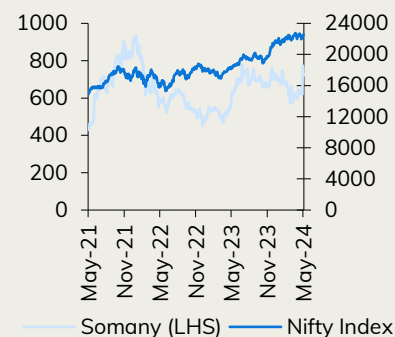
Particulars

Particular	₹ crore
Market	2,947
Capitalization	335
Total Debt (FY24)	71
Cash (FY24)	3,211
EV	819 / 561
52 week H/L (₹)	8.2
Equity capital	2.0
Face value	

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	54.8	54.8	54.8	55.0
DII	21.9	23.7	23.3	23.8
FII	1.6	1.5	1.4	1.3
Other	21.7	20.1	20.5	19.9

Price Chart



Key risks

- Slowdown in demand
- Any sharp rise in gas costs

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Key Financial Summary

₹ crore	FY21	FY22E	FY23	FY24	5 yr CAGR (FY19-24)	FY25E	FY26E	2 yr CAGR FY24-26E
Net Sales	1,641.4	2,082.7	2,464.6	2,577.3	8.6%	2,822.8	3,170.8	10.9%
EBITDA	190.2	206.5	188.7	253.2	9.2%	303.4	348.6	17.3%
EBITDA Margin (%)	11.6	9.9	7.7	9.8		10.7	11.0	
PAT	57.0	88.7	71.5	96.9	15.9%	139.7	169.5	32.3%
EPS (₹) *	13.4	20.9	16.8	23.6		34.1	41.4	
P/E (x)	53.5	34.4	42.7	30.4		21.1	17.4	
EV/EBITDA (x)	16.5	15.7	17.2	12.6		10.5	8.7	
RoNW (%)	8.9	12.2	9.1	13.5		16.8	17.5	
RoCE (%)	11.1	10.7	9.0	14.8		17.2	18.9	

Source: Company, ICICI Direct Research

Q4/FY24 Performance highlights and outlook

- **Tiles segment performance:** Somany's tiles sales volumes were up ~7.3% YoY at 18.9 MSM. Tiles revenues were up 4.8% YoY at ₹ 611 crore, with pricing decline of ~2.3% YoY. For FY24, Tiles volumes were up 4.8% YoY at 67 MSM with Tiles Revenues of ₹ 2225 crore, up 3.6% YoY.
- **Tiles Industry update:** As per the management, the overall size for tiles industry during FY24 was at ~₹ 56000-58000 (including ~₹ 19000 crore of exports). **It expects overall domestic industry to witness 5-6% volume growth in FY25.**
- **Demand Outlook:** The company indicated that both Domestic and export demand remained sluggish. Exports were impacted by high freight rates and geopolitical issues. on the other hand, domestic demand was impacted by some lag in real estate led demand traction. **It expects domestic demand revival from H2FY25.** The management, however, added that Q1 demand would remain sluggish due to elections. **It expects overall domestic industry to witness 5-6% volume growth in FY25. IT also indicated that pricing has largely bottomed out in FY24.**
- **Guidance:** The management expects revenue growth of **low double digits in FY25, largely driven by volumes. On margins front, EBITDA margin is likely to expand by 100-150 bps YoY**, amid benign gas prices and demand led recovery. For, bathware segment, it expects to grow at double-digit revenue growth.
- **Gas price:** Average gas cost for FY24 was ₹ 45/scm (vs. ₹ 59/scm in FY23). Region wise, Gas prices in west, north, south, in Q4FY24 were at ₹ 47, ₹ 45, ₹ 50 per scm vs. ₹ 45, ₹ 46, ₹ 56, per scm, respectively in Q4FY23. It also indicated that **gas prices remain stable in FY25YTD.**
- **Investment in Nepal:** Recall, the company is setting up a tile manufacturing facility in Nepal, with annual capacity of 3.5 MSM on JV basis The plant will be a mix of ceramic and GVT tiles. **The project was delayed and is now expected to commence production in H2FY26.** Nepal market demand has shrunk from 20 MSM per annum to 13-14 MSM per annum.
- **Dealer additions; A&P spends:** The company added 100 dealers on net basis in FY24. It expects to add 150 dealers in FY25. A&P spend at was ~2.5% of revenues in FY25 and is expected to go up to 3%.
- **Product Mix:** In Q4FY24, ceramic formed 35%, PVT formed 29% and GVT formed 36% of volume mix. For FY24, Ceramics 37%, PVT 29%, GVT 34%. As per the management, GVT mix is expected to inch up to 38% in FY25 from 34% in FY24.
- **Clientele Mix:** Retail forms 80% of sales while remaining is institutional segment accounts (~12% government orders and 8-9% from corporates). The management expects institutional mix to reach ~25%, going ahead.
- **Capex:** Capex was ₹ 162 crore in FY24. The company has guided for capex of ₹ 50-60 crore every year, going forward.

Exhibit 1: Quarter Performance

Particular	Q4FY24	Q4FY23	YoY (Chg %)	Q3FY24	QoQ (Chg %)	Comments
Net Sales	738	679.2	8.6	612.1	20.5	Somany Ceramics tiles volumes were up 7.3% YoY at 18.9 MSM. Tiles revenues were up 4.8% YoY at ₹ 611 crore
Other Income	1.6	3.6	-55.2	2.8	-43.4	
Raw Material Expense	132.8	154.7	-14.2	134.1	-1.0	
Purchase of Traded Goods	179.3	153.0	17.2	140.5	27.6	
Power & Fuel	139.9	154.3	-9.4	125.2	11.7	
Employee benefit	86.7	80.5	7.7	79.4	9.2	
Other Expenses	75.4	72.3	4.3	75.7	-0.4	
EBITDA	79.5	61.0	30.3	59.0	34.6	
EBITDA Margin (%)	10.8	9.0	180 bps	9.6	113 bps	Margin expansion aided by benign gas prices
Depreciation	19.3	18.7	3.2	18.8	2.6	
Interest	13.4	11.6	15.4	10.9	23.4	
PBT	48.3	34.2	41.4	32.1	50.4	
Taxes	17.7	9.8	81.0	10.0	76.5	
PAT	30.8	24.3	26.7	22.2	38.8	

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

Assumptions	FY22	FY23	FY24	FY25E	FY26E
Sales Volume Assumptions (MSM)	57.9	63.9	67.0	73.7	81.3
Average Realisation (₹/SM)	317	336	332	329	335

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Net Sales	2,465	2,577	2,823	3,171
Other Income	15	11	12	13
Total Revenue	2,493	2,602	2,848	3,198
Raw Material Expense	638	543	593	666
Purchase of Traded Goods	542	599	655	736
(Increase)/Decrease in Inver	(111)	56	40	35
Employee benefit expenses	301	324	353	396
Other Expenses	272	294	322	361
Total Operating Expendit	2,290	2,338	2,533	2,836
EBITDA	189	253	303	349
Interest	40	46	34	29
Depreciation	68	73	80	83
PBT	95	145	201	249
Total Tax	26	43	56	70
PAT before MI	67	99	145	180
Minority Interest	(5)	3	5	10
PAT	71	97	140	170
YoY growth	376.6%	35.5%	44.2%	21.3%
EPS (Diluted)	16.8	23.6	34.1	41.4

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Liabilities				
Share Capital	8.5	8.2	8.2	8.2
Reserves & Surplus	778.5	711.9	823.7	959.3
Total Shareholders funds	787.0	720.1	831.9	967.5
Secured Loan	303.3	149.4	109.4	69.4
Unsecured Loan	185.1	185.7	185.7	185.7
Total Debt	488.4	335.1	295.1	255.1
Deferred Tax Liability	32.7	36.9	36.9	36.9
Minority Interest	107.6	112.8	117.8	127.8
Other Long Term Liabilities	74.5	75.0	75.0	75.0
Long Term Provisions	10.5	11.0	11.0	11.0
Liability side total	1,501	1,291	1,368	1,473
Assets				
Gross Block	1,301.3	1,479.6	1,529.6	1,579.6
Net Block	1,007.7	1,113.4	1,083.3	1,050.6
Capital WIP	47.3	9.6	9.6	9.6
Current Investments	31.9	14.6	14.6	14.6
Long-term loans & advances	2.6	-	-	-
Inventories	391.5	346.6	386.7	434.4
Sundry Debtors	268.3	337.2	369.3	414.9
Loans and Advances	0.8	-	-	-
Other Current Assets	52.4	52.2	85.1	95.6
Cash	154.6	70.9	28.4	142.4
Total Current Assets	899.4	821.5	884.0	1,101.7
Creditors	377.7	559.3	502.7	564.7
Provisions	5.2	4.8	4.8	4.8
Other Current Liabilities	127.7	128.8	141.0	158.4
Total Current Liabilities	510.6	692.8	648.5	727.9
Net Current Assets	388.8	128.6	235.5	373.9
Assets side total	1,501	1,291	1,368	1,473

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Profit after Tax	71.5	96.9	139.7	169.5
Depreciation	67.9	72.5	80.1	82.7
Interest Paid	40.4	46.5	33.9	29.3
Cash Flow before WC cha	162.8	209.8	247.1	278.7
Net Increase in Current Ass	(135.6)	(23.0)	(105.1)	(103.7)
Net Increase in Current Liab	171.7	182.2	(44.3)	79.4
Net CF from Op. Activities	198.8	369.1	97.7	254.4
(Purchase)/Sale of Fixed As	(122.5)	(140.6)	(50.0)	(50.0)
Others	34.9	53.3	11.7	12.8
Net CF from Inv. Activities	(87.6)	(87.2)	(38.3)	(37.2)
Proceeds/Repayment of De	(22.9)	(153.3)	(40.0)	(40.0)
Dividend and Dividend Tax	-	(12.5)	(27.9)	(33.9)
Interest Paid	(40.4)	(46.5)	(33.9)	(29.3)
Net CF from Fin. Activities	(63.2)	(212.2)	(101.9)	(103.2)
Net Cash flow	26.1	(83.6)	(42.5)	114.0
Opening Cash/ Cash Equivc	148.6	154.6	70.9	28.4
Cl. Cash/ Cash Equivalent	154.6	70.9	28.4	142.4

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
Per Share Data				
EPS	16.8	23.6	34.1	41.4
Cash EPS	32.8	41.3	53.6	61.5
BV	185.4	175.6	202.9	236.0
Revenue per Share	580.6	628.6	688.5	773.4
Dividend per share	3.0	3.0	5.0	5.0
Operating Ratios				
EBITDA / Total Operating In	7.6	9.8	10.7	10.9
PAT / Total Operating Incon	2.9	3.7	4.9	5.3
Inventory Days	58	49	50	50
Debtor Days	40	48	48	48
Creditor Days	56	79	65	65
Return Ratios				
RoE	9.1	13.5	16.8	17.5
RoCE	9.0	14.8	17.2	18.9
RoIC	9.5	15.1	17.0	20.3
Valuation Ratios				
EV / EBITDA	17.2	12.6	10.5	8.7
P/E	42.7	30.4	21.1	17.4
EV / Net Sales	1.3	1.2	1.1	1.0
Market Cap / Sales	1.2	1.1	1.0	0.9
Price to Book Value	3.9	4.1	3.5	3.0
Turnover Ratios				
Asset turnover	1.6	2.0	2.1	2.2
Gross Block Turnover	1.9	1.7	1.8	2.0
Solvency Ratios				
Net Debt / Equity	0.4	0.3	0.3	0.1
Current Ratio	1.4	1.1	1.3	1.3
Debt / EBITDA	1.6	1.0	0.8	0.3
Quick Ratio	0.6	0.6	0.7	0.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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